

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

AMEREN ILLINOIS COMPANY)	
d/b/a Ameren Illinois)	
)	Docket No. 13-0476
)	
Revenue-neutral tariff changes)	
related to rate design.)	
)	

CORRECTED REPLY BRIEF OF AMEREN ILLINOIS COMPANY

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Dated: January 15, 2014

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I. Introduction

A. Introduction

The Commission's stated preference is to design "cost-based" rates—rates that most accurately reflect how ratepayers cause costs—to ensure that no one customer rate class is subsidizing another. This requires the allocation of costs and revenues amongst the various classes to be as close to the cost of serving each class as is reasonably possible or appropriate.

To that end, Ameren Illinois Company d/b/a Ameren Illinois (AIC or the Company) has proposed a number of modifications to the current electric delivery rate design that the Commission has applied to the revenue requirement established annually for AIC's formula rate tariff. A handful of significant issues remain contested. Certain AIC proposals gradually resolve existing inter-class and intra-class subsidies by the January 2018 billing period—the rate mitigation plan to transition the DS-4 class to cost-based rates and a uniform Electric Distribution Tax (EDT) rate, and the new DS-6 temperature-based class and elimination of the rate limiter credits for grain elevators. Other AIC proposals fix or avoid an under- or over-allocation of distribution costs—the agreement with Staff on a modified allocation method for primary distribution line costs, and the use of the same customer-related allocator for meter and non-meter AMI assets. Still other AIC proposals refine the existing rate design—the lower Transformation Capacity Charge for Rate Zone II +100 kV customers and the modest increase in the DS-1 Customer Charge. In addition, AIC opposes the Illinois Industrial Energy Consumers' (IIEC) proposals to assign a certain percentage of single-phase primary distribution facilities exclusively to secondary voltage customers, and to conduct a subsequent workshop or investigation to segregate single- and three-phase costs.

The arguments in the AIC's Initial and Reply Briefs demonstrate that the substantial

weight of the evidence in the record supports the Company's positions on the remaining contested issues. For the reasons given therein, the Commission's conclusions should adopt AIC's positions.

B. Nature of AIC's Operations

C. Legal Standard

II. Cost Allocation

A. Resolved Issues

- 1. Allocation Using Supply and Service Voltage Designations**
- 2. Functionalization of Overhead Distribution Lines**
- 3. Use of CUST370 and CUST370A Allocation Factors for Meter Investments**

B. Contested Issues

- 1. Allocator for Primary Distribution Line Costs**

Introduction

Staff, IIEC, the Commercial Group and AIC each address in their respective initial briefs the appropriate methodology to use in allocating costs of primary distribution lines. Staff and AIC recommend that the Commission adopt an agreement presenting a Modified Primary Line Allocator (contained in AIC Cross Exhibit 3), while IIEC and the Commercial Group recommend that the Commission allocate the costs at issue based on Non-Coincident Peak (NCP), as opposed to Coincident Peak (CP) demand.

The Modified Primary Line Allocator, as a whole, represents a reasonable resolution of this issue in light of concerns about the effect of the CP versus the NCP Method on DS-5 and DS-6 customers and in consideration of recent Commission rulings on the topic. AIC continues to recommend that the Commission adopt the Modified Primary Line Allocator presented on

AIC Cross Exhibit 3. However, in the event that the Commission harbors concerns about the evidentiary support for this joint proposal, AIC recommends that the Commission adopt the NCP Method (subject to a potential adjustment for DS-5 customer discussed in further detail below) for those reasons expressed in AIC's pre-filed testimony and largely summarized by both IIEC and the Commercial Group in their initial post-hearing submissions.

The Modified Primary Line Allocator is reasonable and is supported by the record.

In its Post-Hearing Brief, the Commercial Group attempts to paint in a poor light the procedural manner in which the Modified Primary Line Allocator was offered into the record. (Commercial Group Init. Br. at 3.) Specifically, the Commercial Group complains that AIC Cross Exhibit 3 was offered into the record “[n]ear the very end of the evidentiary hearing, after five rounds of testimony had been filed, and after AIC’s witness on the issue (Mr. Schonhoff) had already concluded his testimony...” (*Id.*)

Granted, the manner in which the agreement contained in AIC Cross Exhibit 3 was reached and presented may not have been ideal, although the related timing was primarily a function of the schedule, *i.e.*, the proximity of the hearing to previous round of testimony. (Tr. 144-45 (counsel for Staff describing the then-contemporaneous events); *see also* Tr. 145-46 (counsel for AIC describing relevant exchanges with Staff).) But to express concerns about the manner in which the agreement was reached is fundamentally different than arguing that the agreement lacks sufficient evidentiary support for Commission approval. In this case, the agreement at issue is contained and presented in an exhibit offered and accepted into the record without objection from any party. Staff witness Mr. Rukosuev was questioned about the agreement and testified that the Modified Primary Line Allocator presented on AIC Cross Exhibit 3 represented “a reasonable approach to resolution of the issue.” (Tr. 132:3-6.) And any procedural imperfections (not to be confused with improprieties) were acknowledged during the

evidentiary hearing. In recognition of the timing of the agreement (and the fact that the same was reached after Mr. Schonhoff had testified earlier that day), AIC agreed to retender Mr. Schonhoff and Staff agreed to retender its witness to field additional questions about the allocation agreement after all parties had additional time to consider the agreement and to prepare any supplemental cross examination. (Tr. 143-47.) The parties later waived the retender. AIC is not responsible for that decision.

Staff too agrees that the Commission should adopt the Modified Primary Line Allocator. (Staff Init. Br. at 7-12.) In addition to commenting on many of the same DS-5 and DS-6 issues that were addressed by AIC in its Initial Brief and underlying testimony, Staff, like the Company, also stressed recent Commission precedent on the topic in dockets related to AIC and Commonwealth Edison (ComEd). Staff does a good job of presenting the history of the issue in decisions dating back to 2008. (*Id.* at 8-9.) In each of the three most recent decisions on the topic (Dockets 08-0532, 09-0306 *et al.*, and 10-0467), the Commission adopted use of the CP Method upon the urging of Staff. (*Id.*) AIC recognizes and emphasizes the effect these recent cases may have on the outcome of this one.

In conclusion, Staff and AIC support the Modified Primary Line Allocator. The agreement takes into consideration the effects of the conflicting allocation proposals (CP verse NCP) on the DS-5 and DS-6 classes, the effect, or potential effect, of recent Commission decisions, and results in less costs being allocated to the DS-1, 2, 3 and 4 classes than under the “pure” CP method recommended by Staff. The Modified Primary Line Allocator is supported by the record and should be adopted by the Commission.

Should the Commission have concerns about the evidentiary support for the Modified Primary Line Allocator, the Commission should adopt the NCP Method or a hybrid NCP Method described by Ameren witness Mr. Schonhoff.

In the event that the Commission harbors concerns or reservations about the evidentiary

support for the Modified Primary Line Allocator, which it should not, the Commission should adopt either the NCP Method or a hybrid NCP Method discussed in surrebuttal testimony by Ameren witness Mr. Ryan Schonhoff. As reflected in their respective initial briefs, both IIEC and the Commercial Group prefer the NCP method when compared to a CP alternative.

IIEC in particular does a good job in its Initial Brief of summarizing the pre-filed testimony offered on the topic by Mr. Schonhoff. In order to avoid unnecessary redundancy, AIC will not explain in exacting detail the basis for its position, but notes the following advantages of the NCP Method over the CP Method, as also noted by IIEC:

- The NCP Method more appropriately recognizes the load diversity and cost causation specifically associated with the facilities at issue;
- The NCP Method more appropriately allocates costs to the DS-5 class in that under the CP Method street lighting customers would receive zero dollars in costs associated with both substations and primary distribution lines;
- The NCP Method results in a more appropriate allocation of costs to the new DS-6 class when compared to the CP Method;
- The NCP Method is no less “accurate” than the CP Method;
- The NCP Method is more in line with national industry practices;
- The NCP Method is recognized as an appropriate allocation method in the Electric Utility Cost Allocation Manual prepared by the National Association of Regulatory Utility Commissioners; and
- Adoption of the NCP Method for primary distribution lines alone can be distinguished from adoption of the CP Method for primary distribution lines *and* substations, given the varying levels of load diversity affecting each of those sets of facilities.

(IIEC Init. Br. at 7-11 (internal citations omitted).)

In fact, IIEC notes that “Ameren has provided thorough and convincing evidence supporting its proposed return to the NCP method for allocating primary distribution plant costs, or at least a portion thereof.” (IIEC Init. Br. at 10-11.) IIEC further states that “Ameren has address and refuted every single Staff argument to the contrary.” (*Id.* at 11.) And IIEC was

similarly complimentary during the evidentiary hearing:

Q. And just so we understand, why do you believe [the NCP Method] is the appropriate approach?

A. Frankly, I thought all of the reasons that Mr. Schonhoff went into that had to do with supported industry literature, his explanation of the way the delivery system is designed, his explanation of why this is not a punishment on certain classes. I'm not even sure he had one or two other reasons. Frankly I found all of them correct, compelling, and didn't really have a whole lot to add to them. I mean he introduced this [recommendation], made a compelling case in his direct testimony, expanded on it, and made an even better case in his rebuttal testimony, and then touched on it in his rebuttal. I think he did a fine job.

Q. He is a fine witness, isn't he.

A. In this regard, he did a nice job.

(Tr. 173:15-174:6-7.)

IIEC also apparently supports as an alternative to a “pure” NCP approach a hybrid NCP proposal that was posed in the surrebuttal testimony of Mr. Schonhoff. If adopted, the hybrid approach would address AIC’s concerns specific to the DS-5 class. (IIEC Init. Br. at 11.) As stated by Mr. Schonhoff, as an alternative to the NCP approach, AIC would find it reasonable to accept an adjustment to the DS-5 class’ NCP demand that would reduce the same by either 50% or 92.5%. (Ameren Exhibit 8.0 (Schonhoff Sur.), p. 17.) IIEC apparently supports the 50% figure for purposes of resolving the issue in this proceeding. (IIEC Init. Br. at 11.)

In conclusion, in the event the Commission declines to adopt the Modified Primary Line Allocator presented in AIC Cross Exhibit 3, the Company recommends that the Commission adopt an NCP Method approach to the allocation of primary distribution lines, subject to the potential adjustment to the DS-5 class discussed above. A decision affirming use of the NCP Method, with or without the DS-5 modification, has a sound and firm basis in the evidence submitted in this docket.

2. Allocation of Single-Phase and Three-Phase Primary Facility Costs

In its Initial Brief, IIEC continues to recommend that the Commission (1) order AIC to participate in future workshops designed to review the merits of separating and independently allocating the costs of single-phase and three-phase facilities and (2) assign 10% to 20% of primary voltage cost to secondary customers as a result of this case. (IIEC Init. Br. at 12-22.) Both of these recommendations should be rejected.

a. Workshop on the Future Allocation of Single-Phase and Three-Phase Primary Facility Costs

Although as IIEC notes, AIC remained relatively neutral in testimony on the topic of participating in future workshops on this issue, AIC also recognized that a decision adverse to IIEC on this topic in Docket 13-0387 would appear to be fatal to IIEC's recommendation in this matter, given that it would appear to negate the first step of a two-step examination of these issues. (Ameren Ex. 8.0 (Schonhoff Sur.), p. 26.) As noted in both the Initial Briefs of AIC and IIEC, the Commission has issued an order in Docket 13-0387 rejecting IIEC's workshop recommendation. Thus, the Commission need not look for guidance in recent decisions issued on this topic in Wisconsin. And it need not look for guidance from Michigan. (IIEC Init. Br. at 13, 17.) It need look no further than the decision rendered in Docket 13-0387 and the evidence offered in this case.

Despite its witness agreeing that initial workshops could be conducted jointly by AIC and ComEd because the conceptual issues would be "similar enough," (IIEC Ex. 3.0C (Stephens Reb.), p. 12), IIEC now essentially urges the Commission to ignore the ComEd decision based on distinctions in the evidentiary records. (IIEC Init. Br. at 22.) AIC does admit that the facts offered in the ComEd case are somewhat different than the facts offered in the case at bar, given Staff's opposition to IIEC's position in Docket 13-0387 and its respective neutrality (or lack of

official position) in this matter. (Tr. 137-38, *see also* Staff Init. Br. at 12.) But, as noted in AIC's Initial Brief, Mr. Schonhoff also recognizes many of the same substantive issues that were of concern to the Commission in Docket 13-0387, by noting the complexities of the primary distribution system and the potential impracticality of "deconstructing costs." (Ameren Ex. 8.0, p. 27.) IIEC witness Mr. Stephens also conceded that any investigation into the further segregation of single- and three-phase costs would not be static—a new investigation would be required each time AIC or the Commission wanted to determine whether a different segregation was warranted. (Tr. 157-160.) Given this complexity, the incremental time and expenses that any investigation would require, and the result of the recent decision in Docket 13-0387, the Commission should decline to order AIC to participate in workshops on this topic.

b. Allocation of Single-Phase Primary Facility Costs to Secondary Voltage Customers

AIC also urges the Commission to reject IIEC's recommendation to assign 10% to 20% of primary facility voltage cost to secondary voltage customers as a result of this case. IIEC cites a Commission decision in Docket 10-0467 as support for the proposition that the Commission was not interested *at that time* in segregating costs of primary and secondary facilities, the implication being that it may entertain a similar or substantially similar notion in subsequent proceedings. (IIEC Init. Br. at 17-18.) But based on the decision in the ComEd Docket 13-0387, in which the Commission rejected a nearly identical 10-20% direct assignment recommendation offered by IIEC, it appears as though the Commission, at least based on the evidence in that docket, isn't interested in this segregation *at this time* either.

IIEC attempts to explain away AIC's concerns about IIEC's failure to provide any estimate of the "offsetting portion" of three-phase primary distribution line costs that exclusively serve customers that taking service primary voltage. (*Id.* at 20-22.) But these weren't the only

concerns raised by AIC. Indeed, Mr. Schonhoff also explains that determining the appropriate amount of costs of the primary distribution system to assign to secondary customers, if any, “involves a complex examination of system assets, which has not been conducted.” (Ameren Ex. 8.0 (Schonhoff Sur.), p. 2:34-35.) For this reason, Mr. Schonhoff argues that “[t]he record simply does not support the specific percentages that Mr. Stephens advocates.” (*Id.* at 2:35-37.) He also states that “deconstructing costs [in the way Mr. Stephens would suggest] might not be practical.” (*Id.* at 27:568-69.) In fact, Mr. Schonhoff explains that “[s]imply stating that these single phase primary distribution line costs should be allocated to the ‘secondary’ customers isn’t quite as simple or straightforward, as Mr. Stephens describes.” (*Id.* at 27:583-85.) Specifically, Mr. Schonhoff explains that AIC doesn’t currently have class demands segregated by single-phase and three-phase for the relevant voltage levels, as would be required for such adjustment. (*See id.* at 27:579-80.) In sum, “[w]hile Mr. Stephens’ proposal presents interesting ideas, the proposal is still incomplete and could result in inaccurate allocations of costs amongst the DS-1 and DS-2 classes, even though the proposal would effectively remove costs from the DS-3 and DS-4 classes.” (*Id.* at 28:590-93.) The Commission should reject Mr. Stephens’ proposal. As aptly described by Mr. Schonhoff, “[t]he unknown facts purportedly driving Mr. Stephen’s proposal should cause the Commission to exercise caution in approving any immediate adjustment based on Mr. Stephen’s recommendation in this proceeding.” (*Id.* at 27:569-71.)

3. Allocator for Non-Meter AMI General and Intangible Plant

AIC proposes to use the same customer-related allocator (CUST370) for the allocation of both AMI meter plant investments and AMI non-meter General and Intangible (G&I) plant investments—the communication network and the IT hardware and software assets. (AIC Init. Br. at 16-20.) The basis for the use of the same customer-related allocator is two-fold: the G&I

plant assets (1) effectively replace manual meter readers; and (2) are essential for the AMI meters to be fully functional. (*Id.*) The AMI meters' dependence on their connectivity to the non-meter AMI assets means that a customer requires an AMI meter, a connection to the communications network, and working IT hardware and software, before any expected benefits and functionalities of AMI can be realized. (*Id.*) Staff agrees with AIC's proposed allocation of non-meter AMI plant. (Staff Init. Br. at 12-13.) And IIEC agrees as well. (IIEC Init. Br. at 22-24.)

The Office of the Attorney General (AG), however, does not agree—it prefers an allocation of the non-meter AMI assets that shifts these costs away from residential customers. (AG Init. Br. at 4-8.) Specifically, the AG proposes the use of a labor-related allocator that would assign approximately 71% of the estimated AMI capital costs to DS-1 customers, whereas AIC's proposed customer-related allocator would assign approximately 84% percent of these costs to the DS-1 class. (*Id.* at 5-6.) But principles of cost causation and shortcomings in the AG's novel analysis of estimated AMI benefits undermine the AG's proposal. The Commission should adopt AIC's proposal, as supported by Staff and IIEC.

The non-meter G&I AMI plant investments are necessary for the meter AMI plan investments to be fully functional. It only stands to reason that the same cost allocator should be used.

The AG maintains that AIC's proposed use of a customer-related allocator for the non-meter AMI assets “fails to recognize the substantial non-meter related effects of AMI.” (AG Init. Br. at 4.) That isn't true. What AIC's proposed use of a customer-related allocator actually rejects is the AG's assumption that there are certain AMI functions and benefits that are “general” in nature and not related to the metering function. As explained in length in AIC's testimony and Initial Brief, the various other functions identified by the AG's witness Mr. Rubin, in addition to the specific meter reading functions, all require a fully functional meter connected

to the AMI communications network and supported by the IT hardware and software assets. There is no basis to the assumption that certain AMI functions and benefits will exist solely because of the non-meter AMI investments and independent of the AMI meter investments.

The AG also argues that “[t]he benefits provided by AIC are driving AMI installation....” (AG Init. Br. at 6.) But that also isn’t true. The driving force behind the installation of AMI is the statutory requirement that AIC submit an AMI Plan that contains “a deployment schedule and plan that includes deployment of AMI ... to 62% of all customers for a participating utility that is a combination utility.” 220 ILCS 5/16-108.6(c)(3). The purpose of the AMI Cost-Benefit analysis was to demonstrate that the deployment of AMI to 62% of AIC’s electric delivery customers would be “cost beneficial,” in that the expected benefits of AMI, over time, would exceed the expected costs. 220 ILCS 5/16-108.6(a). The purpose of the AMI Cost-Benefit analysis was not to calculate and assign estimated installation costs and benefits to particular customer segments for ratemaking purposes.

The AG claims that “AMI investment does not necessarily occur in proportion to the number of customers, due to variances in costs for meters of different sizes and loads, as well as differences in installation costs depending on the characteristics of customers.” (AG Init. Br. at 5.) The AG also claims that proper allocation of AMI capital costs will depend on the characteristics of customers and the specific equipment used. (*Id.* at 7.) But these claims incorrectly suggest that AIC will design and build the AMI network—and can then assign AMI capital costs—based on the unique characteristics of individual customers. The AG asserts that high-use customers “have more at stake” than low-use customers. (*Id.*) But the AG is not proposing to subdivide the residential class and directly assign AMI capital costs to residential subclasses based on usage. Nor has the AG explained why the non-residential classes would

have more of a stake in the “general” functions that Mr. Rubin identifies. For example, Mr. Rubin’s analysis assigns 4% of the “general” system benefits to the DS-5 lighting class. (AG Ex. 2.2, p. 4.) But he does not explain why the DS-5 class will receive 4% of the benefits that will flow from reductions in unaccounted for energy, demand response, consumption on inactive meters, and electric vehicle enhancements—all functions that would realize significant benefits and that Mr. Rubin claims are “general.” (*Id.* at 2.) And if Mr. Rubin truly believes that the proper allocation of AMI costs depends on customer characteristics, that belief doesn’t explain his agreement to use a customer-related allocator for AMI meter costs. Whether these constitute holes in the record or flaws in reasoning doesn’t matter; the bottom line is that these defects demonstrate that the AG’s proposed labor-related allocator is not reasonable.

The AG’s analysis of estimated AMI benefits is based on its witness’s subjective determination that certain functions are “general,” rather than “customer,” in nature. This analysis ignores that the “general” functions of the AMI network require fully functional customer meters.

The AG states that the benefits of AMI are not limited to the traditional metering function. (AG Init. Br. at 5.) This is true. The AG states that the non-meter AMI assets will support functions other than meter reading and field and meter services. (*Id.* at 7.) This is also true. And the AG states that the categories of expected AMI benefits in the AMI Plan tell us the functions that the AMI network will perform. (*Id.* at 6.) And this is also true. But these propositions alone do not support the AG’s proposal. Just because a fully functional AMI meter and network will provide additional benefits and functionalities, beyond what AIC’s current meter offers, does not mean that different allocators should be used for the meter and non-meter investments. Whether the number of incremental AMI benefits was one or tenfold, these two facts are inescapable: (1) the AMI meter investments cannot function without the AMI non-meter investments; and (2) none of the expected benefits and functionalities of AMI will be

realized without fully functional and connected meter and non-meter investments. These truths are why the AG's analogy of the non-meter investments to a general office building fails—the functions supported by one business area in a general office building are not dependent on the functions supported by other business areas in the same building. But in the case of the AMI network, the non-meter assets cannot function without the metering assets. That is why AIC's proposed customer-related allocator is superior—it allocates the AMI capital costs in a cost-based way, recognizing each customer requires a meter, the network, and the IT assets.

The AG claims that AIC's proposed customer-related allocator fails to effectively match AMI costs to benefits. (AG Init. Br. at 5.) But this claim assumes that the AG's analysis (1) is necessary to properly assign AMI capital costs; and (2) reliably and accurately measures the portion of the estimated AMI benefits that would be enjoyed by the DS-1 class. Neither is the case. A functionalization analysis of the non-meter AMI assets is not necessary, as the AG claims, because the communications network and IT hardware and software are not analogous to a general office building. (AIC Init. Br. at 18-19.) But even if that type of inquiry were necessary, as explained in AIC's Initial Brief, the AG's analysis suffers from this flaw—it is driven by the subjective designations of whether a cost or benefit is “general” in nature. (*Id.* at 19-20.) The AMI Plan approved by the Commission quantified various operational, customer and societal benefits that would be realized over a 20-year period from the deployment of AMI to 62% of AIC's electric delivery customers. *Ameren Ill. Co.*, Docket 12-0244, Order on Rh'g (Dec. 5, 2012), pp. 4, 22-23. The AG's conclusion that the DS-1 class would receive only roughly 64% of the estimated AMI benefits relies on Mr. Rubin's identification of certain operational, customer and societal benefits, such as outage management, consumption on inactive meters, demand response, and electric vehicle enhancement, as “general” benefits. (AG

Ex. 2.2, p. 2) There is nothing in record that explains Mr. Rubin’s standard for determining what is a “general” function. Mr. Rubin cannot point to other authority where a state commission accepted a similar breakdown of AMI functions. And Mr. Rubin’s analysis does not change the fact that none of the functions can occur without a fully operational and connected meter, network, and IT assets.

The substantial weight of the evidence in the record shows that AIC’s proposal to use the same customer-related allocator for the meter and non-meter AMI investments will result in a fair and reasonable allocation of AMI capital costs across customer classes. The Commission should approve this modification to the cost of service study, and reject the AG’s proposal.

III. Revenue Allocation

A. Resolved Issues

1. Revenue Allocation Methodology – Rate Zone Allocators

B. Contested Issues

1. Revenue Allocation Methodology – Rate Moderation

a. Treatment of Electric Distribution Tax

The existing rates for the DS-4 class provide electric revenues less than the cost to serve that class. (AIC Init. Br. at 22.) The disparity exists for each subclass: Primary, High Voltage and +100 kV. (*Id.*) And it is a wide disparity—a \$13 million shortfall in revenues for the DS-4 class based on AIC’s proposed electric revenue requirement in Docket 13-0301. (*Id.*) The reasons for the shortfall are undisputed: (1) DS-4 customers pay an average Electric Distribution Tax (EDT) rate well below the uniform rate that all customers should be paying; and (2) the rate mitigation plan approved by the Commission in Dockets 09-0306 *et al.* has restrained movement towards cost-based rates for the DS-4 class. (*Id.*) Whereas DS-1 customers in Rate Zone I, for

example, have a current EDT Cost Recovery unit charge of \$0.0017933 (per kWh), DS-4 +100 kV customers in Rate Zone I have a current EDT Cost Recovery unit charge of \$0.0001004 (per kWh)—or 5.6 percent the unit charge of the DS-1 customers in Rate Zone I. (Ameren Ex. 1.3, pp. 1, 5.) The end result of the diminutive unit charges being paid by the DS-4 class is this—the Primary, High Voltage, and +100 kV DS-4 customers represent 7.0%, 17.4%, and 17.3% of the kWh sales, but contribute only 2.8%, 5.7%, and 1.5% of the EDT revenue. (AIC Init. Br. at 22.)

The contested issue amongst the parties to this proceeding is not the allocation of EDT—no party challenges the continued allocation of EDT by usage (kWh sales). (AIC Init. Br. at 21-23; Staff Init. Br. at 14-18; AG Init. Br. at 8-12; IIEC Init. Br. at 24-32; Commercial Group Init. Br. at 4-6.) Nor does any party challenge the notion that each customer class and subclass should pay the same uniform EDT Cost Recovery unit charge. The issue is how quickly that uniformity should occur.

b. Rate Mitigation Alternatives

All things being equal, delivery rates should be designed such that the customer class revenues align with cost of service. *Cent. Ill. Light Co., et al.*, Dockets 09-0306 *et al.*, Order (Apr. 29, 2010), pp. 228, 232, 237, 243. But at times, the Commission has mitigated movement towards cost-based rates to phase-in a rate increase gradually and to avoid rate shock. *Id.* at 295. Such was the case with the rate increases that electric space-heating customers and grain dryers experienced after the rate freeze and the unbundling of delivery rates. (AIC Init. Br. at 23-24.) And such was the case with the rate increases that DS-4 customers experienced after the Commission approved a change in the allocation of EDT from plant in service to usage (kWh). (*Id.* at 21-22.) Here, the Commission must decide how much longer AIC's other electric delivery customers should bear the burden of the DS-4 revenue shortfall due to that change in

allocation.

The parties have presented the Commission with five alternatives for rate mitigation that eliminate the existing DS-4 subsidy over different periods of time. The AG recommends that all customers pay a uniform EDT Cost Recovery unit charge for rates effective for the January 2015 billing period, which effectively results in no mitigation. (AG Init. Br. at 8-12.) AIC recommends its three-tiered revenue constraint, which would result in a uniform EDT Cost Recovery unit charge *within the next two to three iterations, i.e.*, by the January 2018 billing period. (AIC Init. Br. at 23-28.) The Commercial Group supports the AIC modified three-tiered approach, which adjusts one criterion, changing the 0.05 ¢/kWh constraint to 0.025 ¢/kWh. (Commercial Init. Br. at 5.) This alternative would eliminate the EDT rate disparity *within the next five iterations, i.e.*, by the January 2020 billing period (if formula rates remain in effect). (*Id.*; AIC Init. Br. at 29 n. 2.) Staff supports the IIEC modified approach, which eliminates the 0.05 ¢/kWh constraint and modifies the other two criteria, increasing the 10% criterion to 20% and the 1.5 times system average increase criterion to 1.75. (Staff Init. Br. at 17; AIC Init. Br. at 26-27.) This alternative would require *10 iterations* to eliminate the EDT rate disparity. (AIC Init. Br. at 27.) Finally, the IIEC initial proposal, which eliminates the 0.05 ¢/kWh constraint but does not modify the other two criteria, would require *19 iterations* to fully eliminate the EDT rate disparity. (*Id.* at 26.) Whether the Commission ultimately chooses an approach that requires 1, 3, 5, 10, or 19 iterations to phase-out the existing DS-4 subsidy, the end goal is that all customers finally will pay the same EDT rate.

This is not an issue of which proposal produces the most accurate allocation of EDT across the customer classes. All of the proposals assume that usage (kWh sales) will be the cost basis for the allocation. And all of the proposals will lead to cost-based rates for the DS-4 class,

eventually. This is an issue of which proposal produces the most reasonable and fair approach to phase-in the uniform EDT rate. The Commercial Group believes that the modified AIC approach in CG Cross Exhibit 1 “is a reasonable means of balancing the interests of rate payers on different sides of the issue.” (Commercial Group Init. Br. at 5.) The AG believes “there is no good reason to continue” the DS-4 subsidy beyond rates effective for the January 2015 billing period. (AG Init. Br. at 8.) Staff believes that the modified IIEC approach “isn’t unreasonable.” (Staff Init. Br. at 17.) And IIEC believes that its initial approach provides “the most reasonable balance between the competing goals of reflecting cost of service, maintaining gradualism, and avoidance of rate shock.” (IIEC Init. Br. at 31.) And AIC, of course, believes that its three-tiered approach, with either a 0.05 ¢/kWh or a 0.025 ¢/kWh limitation, is reasonable and necessary—both to make meaningful progress in moving the DS-4 class to the uniform EDT rate and to avoid the potential of other classes experiencing greater percentage increases, if AIC’s system average increase were ever to exceed 10%. (AIC Init. Br. at 25-27; Ameren Ex. 7.0 (Jones Sur.), pp. 13-14, 32.)

The Commission ultimately will decide which rate mitigation alternative is reasonable and fair, balancing the interests of all of AIC’s customers and the principles of cost causation, gradualism, and avoidance of rate shock. But before that decision can be made, this fact must be wrestled with—the percentage increases that the DS-4 subclasses would receive under AIC’s proposals are a function of how little of their share of the EDT that these customers currently pay. (AIC Init. Br. at 27.) Staff claims that the percentage rate increases for the DS-4 class under AIC’s initial approach are “simply too much” and “very high.” (Staff Init. Br. at 16, 17.) But as explained by AIC repeatedly, subsequent changes to the EDT Cost Recovery unit charge that DS-4 customers currently pay are going to result in significant percentage changes for

certain DS-4 +100 kV subclasses, simply because those customers are paying a unit charge so far below what the uniform rate for all customers should be. (AIC Init. Br. at 27-28.) Specifically, the DS-4 +100 kV subclasses in Rate Zone I and III would have received a delivery rate increase of 234% and 181%, respectively, if AIC's proposed rate design in this proceeding and its proposed revenue requirement in Docket 13-0301 were approved. (Ameren Ex. 4.0 (Rev.) (Jones Reb.), p. 16.) Without this amount of increase however, it will take many more iterations until all of the DS-4 +100 kV customers are paying the same uniform rate—19 iterations under IIEC's chief proposal. Consider this—the Rate Zone I and III DS-4 +100 kV subclasses in Docket 13-0301 paid an EDT Cost Recovery unit charge (per kWh) of \$0.0001004 and \$0.0000837—or 8.3% and 6.9% of the uniform unit charge (per kWh) of \$0.0012061 that these customers should be paying. As IIEC recognizes, this is “wide disparity between the perceived cost of service and current rates.” (IIEC Init. Br. at 30.) And it is a gap that will require a large percentage increase to eliminate, no matter how many years the Commission decides must pass before cost-based rates are reached.

If the Commission is left deliberating between AIC's three-tiered approach, with a 0.05 or 0.025 ¢/kWh limitation, or IIEC's modified approach, which eliminates the ¢/kWh limitation altogether in favor of increasing the other two criteria, the other shortcomings of IIEC's modified approach must be noted. The main criticism, of course, of IIEC's modified approach is that it will take 10 iterations for all DS-4 subclasses to reach the same, uniform EDT rate—well beyond the time that AIC's formula rate will even be in effect. But that isn't the only problem with IIEC's two-tiered approach. Without a ¢/kWh limitation, the percentage rate change limitations, whether 10% or 20%, will control the movement towards cost-based rates. This would eliminate the subsidy for the Primary and High Voltage DS-4 subclasses much more quickly than the

subsidy for the +100 kV subclass. (Ameren Ex. 4.0 (Rev.), pp. 16-17.) And it would eliminate the subsidy for the +100 kV subclass in Rate Zone II much more quickly than the subsidy for +100 kV subclasses in Rate Zones II and III. (*Id.*) When one considers the EDT dollars contributed by the various DS-4 subclasses, the unfairness of IIEC's proposals becomes even clearer; why should a High Voltage industrial customer with a similar usage to +100 kV industrial customer in the same rate zone contribute more EDT revenue. Neither IIEC nor Staff proposes a solution to this shortcoming. Nor do they address the potential effect of adopting the 20% and 1.75 times criteria on future rate increases for other customer classes. (Ameren Ex. 7.0, pp. 13-14, 32.)

IIEC claims that AIC's proposed DS-4 rate increases "defy logic." (IIEC Init. Br. at 25.) But the reasoning underlying the AIC's rate mitigation proposals is well-documented and sound—the DS-4 subsidy will exist for many more years, unless the Commission approves a rate moderation approach that allows for much more meaningful movement towards cost-based rates than the approach previously approved by the Commission. IIEC suggests that AIC no longer considers rate moderation a valid consideration and "turns the notion of moderation on its head" with its proposals. (*Id.* at 30, 31.) But if that were true, AIC would have advocated the AG's position that the DS-4 subsidy should be eliminated in full for the January 2015 billing period.

The concept that AIC actually rejects is this—a rate moderation plan, which takes a decade or two to fully eliminate an existing subsidy, which perpetuates that subsidy for certain DS-4 subclasses longer than other DS-4 customers, and which would permit other customer classes to experience higher percentage increases, depending on the average system increase. Staff claims that AIC's initial approach has an "apparent inconsistency" with its approach to eliminating the rate limiter credits for grain drying customers. (Staff Init. Br. at 17.) But under

AIC's rate design proposals, both subsidies would be eliminated by the January 2018 billing period. The Proposed Order in Docket 11-0279 embraced a three-step phase-in to a uniform EDT rate; the Commission should embrace three-step phase-in here as well. For these reasons, the Commission should reject both of the rate mitigation proposals advanced by IIEC and adopt a revenue allocation constraint that contains AIC's proposed 0.05 or 0.025 ¢/kWh limitation.

IV. Rate Design

A. Resolved Issues

- 1. Methodology for Setting Uniform Charges Across Rate Zones**
- 2. Use of Average Cost Data for DS-3 and DS-4 +100 kV Customers**
- 3. DS-5 Fixture and Distribution Delivery Charges**
- 4. Electric Uncollectible Recovered in Base Rates**
- 5. Allocation of Reconciliation Balance to Electric Distribution Tax**
- 6. Other Meter, Transformation, Reactive Demand, and Distribution Delivery Charges**
- 7. Use of SFV Rate Design for DS-2 Customer Charge**
- 8. Miscellaneous Tariff Changes**

B. Contested Issues

- 1. Transformation Capacity Charge for Rate Zone II DS-4 +100 kV**

AIC proposes a lower Transformation Capacity Charge for a specific subclass of DS-4 customers in one particular rate zone—DS-4 +100 kV customers in Rate Zone II taking service as of December 31, 2012. (AIC Init. Br. at 34-37.) All other transformation customers in Rate Zones I and III, as well as new transformation customers in Rate Zone II, would continue to pay the same uniform charge. (*Id.* at 35.) AIC proposes this lower transformation charge for these specific customers, even though it departs from uniformity across rate zones for transformation

service, for two reasons: (1) the lower cost basis for transformation service for the DS-4 +100 kV customers in Rate Zone II; and (2) the desire to obtain a uniform Electric Distribution Tax (EDT) charge for all DS-4 customers. (*Id.* at 35-36.) The end result (after the EDT subsidy for these DS-4 +100 kV customers is phased out) will be a *cost-based* transformation charge *and* a *cost-based* EDT charge. The rate design principle of cost causation supports this proposal. (*Id.*) And the representative of these customers—the IIEC—supports this proposal. (IIEC Init. Br. at 32-34.)

Staff continues its opposition to the proposed lower charge, for the same reasons that Staff provided in testimony—the lower charge departs from uniformity and could confuse customers. (Staff Init. Br. at 20-21.) These arguments simply do not hold water. Neither AIC nor IIEC believes that industrial customers for the DS-4 +100 kV subclass taking transformation service after December 31, 2012 would be confused by having to pay a higher charge. (AIC Init. Br. at 35-36; IIEC Init. Br. at 34.) And the desire to maintain a uniform transformation charge for this subclass across all rate zones does not trump the evidence that supports AIC’s proposal. Under Staff’s proposal, one of two things must happen—either Rate Zone II DS-4 +100 kV customers will *never* pay a uniform EDT charge or they will contribute (eventually) revenues in excess of the total cost of service allocated to this subclass (once they pay the same uniform EDT charge and Transformation Capacity Charge). (AIC Init. Br. at 35-36.) And in either case, they would pay a charge for transformation service higher than what the cost basis for the service justifies. (*Id.*) Keeping the Transformation Capacity Charge uniform for these customers, as Staff proposes, despite these effects, is not justified. The Commission should approve the lower transformation charge for the Rate Zone II DS-4 +100 kV customers taking service as of December 31, 2012.

2. Seasonally Differentiated Rates for the DS-3 and DS-4 Classes

a. Timetable for Elimination of DS-3 and DS-4 Rate Limiter Credits

Ameren Exhibit 5.5 embodies the terms of the resolution reached by AIC and the Grain and Feed Association of Illinois (GFA) on the elimination of the rate limiter provisions and credits for DS-3 and DS-4 customers. (AIC Init. Br. at 37-38; GFA Init. Br. at 12.) That agreement envisioned an phase-out of the rate limiter credits over the next three years, starting with rates effective for the January 2015 billing period. (*Id.*) That timetable would result in rate limiter credits being fully phased out for rates effective for the January 2018 billing period. (*Id.*)

Staff agrees with the resolution reached by GFA and AIC on the timetable for the elimination of the DS-3 and DS-4 rate limiter credits. (Staff Init. Br. at 22.) IIEC and the AG did not take a position in testimony or on brief. The only other party to address the rate limiter issue was the Commercial Group (who did not file testimony). The Commercial Group's position on brief is that "should the Commission make clear in its final order that the rate limiters will be completely eliminated by January 1, 2018, the Commercial Group will not oppose the AIC/GFA resolution of this issue." (Commercial Group Init. Br. at 7-8.) AIC does not object to the Commission's final order making clear that "DS-3 and DS-4 rate limiter credits will be fully eliminated *by the January 2018 billing period.*" With that language, AIC considers this issue to be resolved.

b. Proposed DS-6 Temperature Sensitive Delivery Service

Ameren Exhibit 5.5 also embodies the terms of the resolution reached by AIC and GFA on the structure of the DS-6 tariff. (AIC Init. Br. at 38-39; GFA Init. Br. at 12-13.) Staff agrees with these terms as well. (Staff Init. Br. at 22.) IIEC, the Commercial Group, and the AG did not take a position in testimony or on brief regarding the structure of the DS-6 tariff. AIC thus

considers this issue resolved, subject to the Commission's approval of the agreed-upon timetable of the elimination of the DS-3 and DS-4 rate limiter credits. AIC respectfully requests that the Commission order AIC to file a DS-6 tariff with the changes identified in Ameren Exhibit 5.5.¹

3. Use of SFV Rate Design for DS-1 Customer Charge

The Commission is faced with two stark choices: either it can approve a slight increase in AIC's fixed charges for DS-1 rates effective for the January 2015 billing period, or it can reverse its prior decision on the propriety of Straight Fixed Variable (SFV) design for AIC's electric residential delivery rates and dramatically alter the way in which AIC has collected revenues from the DS-1 class since May 2010. If it adopts the AG's proposed rate design, the basis for the Commission will be two fabricated propositions, namely that formula ratemaking eliminates the need for SFV design and that the cost of service for residential customers varies with usage. The record shows that neither proposition is true. But this is not just a theoretical debate without consequence; adoption of the AG's proposed rate design would cause several other significant and undesired effects, beyond just radically changing the Customer Charge and Distribution Delivery Charge on residential customers' bills. It would create different or mixed price signals for AIC's gas and combination residential customers, whose rates incorporate SFV design. It would create incremental price increases for electric space-heating customers—the same customers for whom SFV design was introduced to prevent unreasonably high rate increases. And it would create a further destabilization and erosion of electric revenues—problems that SFV design was supposed to address. The Commission should find that the record does not support the AG's proposal.

¹ The GFA's Initial Brief repeats many of the assertions made by its witness in direct testimony, including assertions about the potential rate increases that GFA believes grain elevators would have seen under the DS-3 and DS-4 rates (with rate limiters fully eliminated) and under the terms of the DS-6 rate, as proposed by AIC in its direct. Given the resolution on the rate limiter credits and the terms of the DS-6 tariff between AIC and GFA, AIC did not address in rebuttal, and does not necessarily agree with, GFA's assertions about the impact of AIC's initial proposal.

The Commission must decide this issue based on the record in this case, not Docket 13-0387.

The AG, for the first time in brief, argues that the Commission must order the unwinding of SFV design in this proceeding, based on the decision reached in Docket 13-0387, in which the Commission ordered revenue-neutral changes to the electric delivery service rate design for Commonwealth Edison's (ComEd) formula rate. (AG Init. Br. at 1, 19-20.) But the Commission must base its findings on the evidence admitted into the record in this proceeding, not the record in Docket 13-0387. *Rockwell Lime Co. v. Comm. Com'n.*, 373 Ill. 309, 321 (1940) (manifest quotations from orders in other cases do not constitute a competent basis for a decision); *Atchison, Topeka and Santa Fe Railway Co. v. Comm. Com'n.*, 335 Ill. 624, 638-39 (1929) (commissioners cannot act on their own information about statements outside of the record that were presented in a different proceeding). Here, the utilities are different, the witnesses are different, the service territories are different, and the facts and opinions presented are different. There were also not the same directives imposed upon AIC that were imposed upon ComEd—to provide evidence regarding cost of service for low use residential customers and to explore how ComEd defines the low use customer subclass. *Common Wealth Edison Co.*, Docket 13-0387, Order (Dec. 18, 2013), p. 73. The record here shows that the two premises that serve as the basis for the AG's rate design—that EIMA now guarantees electric delivery revenues and that the cost of serving residential customers varies with usage—are both false. And the record here also shows that the effects of removing SFV design—the increases for electric space-heating customers, the inconsistency with residential rate design for AIC's gas customers, and the destabilization of residential rates and revenues—are adverse and significant. For these reasons, which are discussed further below, the Commission must reject the notion that the result in Docket 13-0387 controls here.

The cost of serving DS-1 customers is much more homogeneous than what the AG portrays.

The primary underlying premise for the AG’s proposed rate design is that the unwinding of SFV rate design would mark a “return to cost-based rates for residential customers.” (AG Init. Br. at 1.) This premise simply isn’t true. There are “demand-related” delivery costs that are fixed, sunk costs that AIC incurs to service the DS-1 class, regardless of the actual usage by individual residential customers. (Ameren Ex. 4.0 (Rev.) (Jones Reb.), pp. 26-28.) Line transformers, primary lines, secondary lines, poles, substations—these distribution facilities are designed, constructed and maintained to serve the maximum expected demand of customers, no matter how much energy a specific residential customer will use in a given month or year. (*Id.*) The capital cost of utility poles to serve a residential subdivision does not change, as usage changes throughout the day or from season to season for the customers in that subdivision; AIC has planned and installed a certain amount of poles and the same number of poles will be in place there throughout the year. (*Id.*) Similarly, the fluctuations in usage for the customers in that subdivision will have little to no impact on the O&M expense that AIC will budget and spend to provide safe, adequate and reliable delivery service. (*Id.*) The use of SFV design provides customers with an accurate price signal of the costs AIC incurs to deliver the next kWh of service. And it provides AIC with the opportunity to recover a portion of these fixed, demand-related costs through the fixed Customer Charge, irrespective of usage. To be clear, AIC’s SFV proposal ultimately caps the monthly fixed charge recovery at 50% of the DS-1 delivery revenue, with the remainder recovered through a variable per kWh charge. The use of SFV design does not ignore principles of cost-causation, as the AG claims. (AG Init. Br. at 2.) Nor does it create “cross-subsidies” between low-use and high-use residential customers. (*Id.*)

Consider the example of the “vacation home.” (AG Init. Br. at 24.) The distribution

system serving the vacation home would be designed based on the same maximum peak expectation as the distribution system serving other homes in the immediate area. This design assumes that the vacation home would be fully active for short periods of time and would cause the same peak as any other residence. Consider likewise the example of the “garage or shed.” (*Id.*) The garage may have a low kWh usage over a year, but could be equipped with electric space heaters or an arc welder. In those situations, low kWh does not equate to low demand. The AG’s conjecture that these types of service locations make a “small-to-zero contribution” to AIC’s estimation of expected peak demand for an area of its service territory is incorrect. (*Id.*) And it improperly assumes that AIC narrowly tailors the design, construction and maintenance of its distribution network based on the specific historical usage patterns of individual customers. The fact that AIC has a customer at all will dictate whether a utility pole is installed at a service location. The standard pole installed would serve a typical (or even large) residential customer. And the fact that the pole depreciates annually has nothing to do with usage, either demand or kWh.

The AG’s analysis of distribution cost responsibility in its witness Mr. Rubin’s exhibits ignores maximum demand design criteria—the real measure of how AIC budgets and incurs costs to service residential customers. The Commission cannot determine design criteria by looking at one year’s usage history for 20 different residential scenarios; and the AG has not demonstrated that AIC’s costs of design increase linearly for its 20 different residential scenarios, as suggested by Mr. Rubin’s analysis. The AG hasn’t presented an analysis of the bill impact that would be felt by residential customers if Mr. Rubin’s design is implemented for rates effective for the January 2015 billing period; it is a hypothetical comparison of two rate design approaches, with and without SFV. The fact that Mr. Rubin’s theoretical low use residential

customers have seen price increases since the unbundling of delivery rates is a function, in part, of the Commission's decision to use SFV design to better reflect the actual costs incurred to serve all DS-1 customers.

The AG complains that the use of SFV design “means that a customer living in a studio apartment without air conditioning pays the same customer charge as a customer residing in the highest energy-using penthouse condominium....” (AG Init. Br. at 14.) For starters, it is not clear where in AIC's service territory there exists the “highest energy-using penthouse condominium.” But even under the AG's proposed rate design, these two hypothetical residential customers, if they both existed, would pay the same Customer Charge. The more significant flaw in the AG's hypothetical, however, is the same flaw that underlies the AG's cost responsibility analysis. The cost of serving a residential customer in AIC's service territory is much more homogeneous than the AG seemingly wants to admit. The AG also claims that the continued use of SFV design is causing “a steadily-dwindling percentage of the electric delivery service bill subject to customer usage control.” (AG Init. Br. at 14.) That is also an embellishment. The increase in AIC's fixed charges is slight, and even after that increase, AIC will still recover slightly more than 50% of DS-1 delivery revenue through a variable charge. And consumer usage for the DS-1 class will still control 100% of the commodity cost. The Commission should reject the notion that the use of SFV design does not properly match revenues with the costs that AIC incurs to serve the DS-1 class.

The unwinding of SFV rate design would unnecessarily undermine rate continuity for AIC.

The AG is asking the Commission to transition from a SFV rate design adopted in Dockets 09-0306 *et al.* in May 2010 to a design completely without SFV starting in 2015. This switch would cause several adverse consequences, as explained in AIC's Initial Brief. First, it would dramatically change the price signals sent to electric delivery residential customers, for

whom the Commission has incorporated SFV design in rates since May 2010. (AIC Init. Br. at 41.) This profound change in rate design would alter how AIC currently recovers revenue from the DS-1 class. Whereas AIC now recovers nearly 45% of DS-1 delivery revenue from the DS-1 class through fixed charges, rather than approve a modest 2.5% increase in fixed charges, the Commission would drastically reduce the Customer Charge, if it adopted the AG's proposal that only 28% of DS-1 delivery revenue can be recovered through fixed charges. (*Id.*) This would increase the variable portion of a residential customer's delivery bill tied to usage, leading to higher and more volatile variable charges for residents, based on customer usage changes such as weather.

Second, the Commission's rejection of SFV design in electric delivery residential rates would send different or mixed signals to AIC's gas delivery and combination residential customers who take both electric and gas service. (AIC Init. Br. at 40, 44.) In Docket 13-0192, the Commission rejected the AG's concerns that smaller-use, non-heating customers were unfairly treated by the continued use of SFV design to recover 80% of gas delivery residential revenues through fixed charges. *Ameren Ill. Co.*, Docket 13-0192, Order (Dec. 18, 2013), pp. 194-195. Indeed, the Commission found that Mr. Rubin's proposed gas residential rate design, which would have recovered a much higher percentage of costs through the per-therm distribution charge, would have created too large an increase for the GDS-1 heating customers. *Id.* But the adoption of Mr. Rubin's proposed electric residential rate design in this proceeding would reject the underlying bases of the gas residential rate design just approved by the Commission for AIC, namely that the use of SFV and intra-class rate stability are important rate design principles. There is no logical reason to adopt SFV design for the GDS-1 class, but reject the concept for the DS-1 class.

Third, the adoption of Mr. Rubin’s design would negatively impact residential customers who heat their homes using electricity—the very electric space-heat customers who caused the Commission to encourage AIC to use SFV design in the first place to address bill impacts after the end of the rate freeze and the unbundling of delivery rates. (AIC Init. Br. at 41.) Unwinding SFV design and increasing the price pressure on electric space-heat residents should not be done on a whim. Here, the record shows that the rejection of the continued use of SFV design will cause larger space-heat customers—indicative of single family homes—to experience an incremental increase of 10% or greater (on top of any other base rate increase required). (*Id.*) The AG fails to explain why an unwinding of SFV design in electric residential rates is justified, given the adverse effect that change would have for space-heat customers. The AG claims that the use of SFV design “will continue to unfairly burden those consumers most in need of the Commission’s protection.” (AG Init. Br. at 2.) The record is unclear on the identity of residential customers about whom the AG is concerned, but they are not the electric space-heat customers.

The AG’s premise that revenues are guaranteed under EIMA is false and misleading.

The secondary premise that the AG trots out to convince the Commission to reverse itself on the use of SFV rate design in AIC’s residential electric delivery rates is the contention that there are “revenue guarantees” inherent in the formula rate structure. (AG Init. Br. at 2; *see also id.* at 20, 27.) As AIC explained in testimony, this assertion is completely false. EIMA does not guarantee revenue; it reconciles costs. (Ameren Ex. 4.0 (Rev.), p. 29.) The costs approved in prior proceedings are reconciled against actual costs incurred. (*Id.*) Actual revenues are not reconciled against rate case revenues. (*Id.*) And Mr. Rubin’s rate design will destabilize revenues, since the higher percentage of costs recovered through the variable charge results in larger swings in revenues based on changes in usage and weather conditions. (AIC Init. Br. at

41, 43.) Decreased rate stability and increased revenue volatility leads to greater earnings swings. (*Id.* at 41.) The fact that costs are reconciled under EIMA should not influence or have any bearing on determining the proper rate design, or be the basis for unwinding SFV design.

The AG also discounts the unrecovered economic loss that comes from the promotion of energy efficiency programs, even under EIMA. (AIC Init. Br. at 43.) The Energy Independence and Security Act of 2007, 16 USCS 2621(d)(17), encouraged state regulatory agencies to implement electric rate design modifications to remove regulatory disincentives to energy efficiency. The incorporation of SFV design was one such regulatory action taken to reduce the revenue erosion that can occur from increased use of energy efficiency programs. EIMA does not eliminate the potential for that revenue erosion. Test years under EIMA are still historical. For instance, the update proceeding that will establish the revenue requirement for rates effective in January 2015 will be based on 2013 delivery costs, plus 2014 projected plant additions, not the costs AIC incurs in 2015 to deliver energy. And prices will be developed based on 2013 weather normalized test year sales. But the revenues collected from residential customers will be based, in part, on usage during 2015—in larger part on usage if the AG's rate design were adopted. Usage changes in the two-year gap are not reflected in pricing, or reconciled. Thus, there remains a lag on energy efficiency impacts on AIC's revenue.

For all these reasons, the substantial weight of the evidence in the record does not support the AG's request that the Commission eliminates SFV design from DS-1 rates and reduces the percentage of residential delivery revenues collected through fixed charges from 45% to 28%.

Dated: January 15, 2014

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Albert D. Sturtevant, an attorney, certify that on January 15, 2014 at approximately 3:30 p.m., I caused a copy of the foregoing *Corrected Reply Brief of Ameren Illinois Company* to be served by electronic mail to the designated email addresses of record of the individuals on the Commission's Service List for Docket No. 13-0476, listed below.

/s/ Albert D. Sturtevant

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